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APPROVED BY: S/S-O:TGMARTIN

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C O R R E C T E D C O P Y (PARA 6 LINE 3 OMITTED)

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SUBJECT:ITALIAN ECONOMIC PERFORMANCE AND U.S. INVESTMENT
IN ITALY

SECRETARY BLUMENTHAL MET ON JULY 27, 1977 WITH ITALIAN
PRIME MINISTER ANDREOTTI. ALSO PRESENT WERE TREASURY
ASSISTANT SECRETARY BERGSTEN, AMBASSADOR GARDNER,
AMBASSADOR GAJA, ITALIAN TREASURY DIRECTOR GENERAL PALUMBO
AND OTHER OFFICIALS. SUMMARY OF THE MEETING FOLLOWS.

1. PRIME MINISTER ANDREOTTI REVIEWED THE CURRENT ITALIAN
ECONOMIC SITUATION HIGHLIGHTING RECENT IMPROVEMENT IN
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REDUCING THE INFLATION RATE AND IN ACCUMULATING FOREIGN
EXCHANGE RESERVES. ANDREOTTI SAID THAT THE COST OF
THIS PROGRESS WAS AUSTERITY AND THE RESULTING RESTRICTION
OF ECONOMIC GROWTH. HE EXPRESSED INTEREST IN INCREASED
U.S. INVESTMENT IN ITALY, PARTICULARLY IN THE SOUTH, AND
IN GREATER ITALIAN PARTICIPATION IN SUBCONTRACTS AWARDED
TO U.S. FIRMS ON INTERNATIONAL PROJECTS, PARTICULARLY IN

THE MIDDLE EAST. HE ADDED THAT THE RECENT AGREEMENT WITH THE INTERNATIONAL MONETARY FUND WAS SPECIFICALLY APPROVED IN THE "PROGRAMMATIC ACCORD" OF A FEW WEEKS AGO.

2. SECRETARY BLUMENTHAL EXPRESSED GREAT ADMIRATION FOR THE FINE PROGRESS ITALY HAS MADE IN IMPROVING THE ECONOMIC SITUATION. EFFORTS TO CONTAIN INFLATION AND TO BRING IMPROVEMENT TOWARD STABILIZATION WERE PARTICULARLY NOTABLE. HE EMPHASIZED THAT THIS IS NOT AN EASY TASK AND ONE WHICH WILL REQUIRE CONTINUED AND CONSIDERABLE CONSTRAINT. IT IS ALWAYS DIFFICULT TO REQUIRE SACRIFICE, THE SECRETARY NOTED, AND DESPITE THE DIFFICULTY OF THIS TASK ITALY IS WELL ON THE WAY TO A FINE SUCCESS. SECRETARY BLUMENTHAL URGED THAT THE SAME POLICY OF RESTRAINT WHICH HAS GIVEN THE ITALIANS SUCCESS UP TO THIS POINT BE MAINTAINED AND EXTENDED TO BUDGETARY AND WAGE DECISIONS. REGARDING SUBCONTRACTING, SECRETARY BLUMENTHAL SAID THAT WE HAVE NO OBJECTION IN PRINCIPLE TO THIS IDEA AND WILL BE AS HELPFUL AS WE CAN. HE CAUTIONED THAT SINCE PRIVATE ENTERPRISES MAKE THEIR OWN DECISIONS, OUR INFLUENCE IS QUITE LIMITED. NEVERTHELESS, HE ASSURED ANDREOTTI THAT WE WILL ENCOURAGE U.S. FIRMS TO COOPERATE WITH ITALIAN ENTERPRISES IN EVERY WAY POSSIBLE.

3. PRIME MINISTER ANDREOTTI UNDERScoreD THE PSYCHOLOGICAL IMPORTANCE, PARTICULARLY TO THE ITALIAN PEOPLE, OF
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CONTINUED U.S. SUPPORT. SUCH SUPPORT MAKES IT EASIER FOR THE ITALIAN PUBLIC TO ACCEPT RESTRAINT AND AUSTERITY.

4. SECRETARY BLUMENTHAL SAID THAT THE U.S. CAN MAKE A DIRECT CONTRIBUTION TO ITALY BY ENCOURAGING AN ACCELERATION OF THE ECONOMIC EXPANSION IN ALL COUNTRIES. THE SECRETARY NOTED THAT ANY INTERNAL PROGRESS IN ITALY WILL BE OF ASSISTANCE IN PROVIDING THEM EXTERNAL OPPORTUNITIES TO STRENGTHEN THEIR ECONOMIC SITUATION.

5. PRIME MINISTER ANDREOTTI SAID THAT THEY WERE LOOKING FORWARD TO A BUSINESS INTERNATIONAL CONFERENCE TO BE HELD IN ITALY IN NOVEMBER AS PROVIDING AN OPPORTUNITY TO INCREASE U.S. INVESTMENT IN HIS COUNTRY. SECRETARY BLUMENTHAL SAID THAT HE WAS PLEASED TO HEAR ABOUT THE MEETING SOME WEEKS AGO AND THOUGHT THAT IT WOULD PROVIDE AN EXCELLENT OPPORTUNITY FOR U.S. FIRMS TO SEE WHAT REAL PROGRESS HAS BEEN MADE IN ITALY IN RECENT MONTHS THE SECRETARY SAID THAT HE WOULD PROBABLY HAVE AN OPPORTUNITY TO TALK WITH MR. ORVILLE FREEMAN, WHO IS COORDINATING THIS PROGRAM AND WOULD TELL HIM HOW ENCOURAGED WE ARE ABOUT ITALIAN ECONOMIC DEVELOPMENTS. THE PRIME MINISTER

EXPRESSED HIS APPRECIATION.

6. SECRETARY BLUMENTHAL COMMENDED THE PRIME MINISTER ON THE FAVORABLE RESULTS OF THE ITALIAN ENERGY PROGRAM. IF THE U.S. COULD HAVE DONE THE SAME, ACCORDING TO THE SECRETARY, IT WOULD HAVE BEEN MOST BENEFICIAL. SECRETARY BLUMENTHAL SAID THAT PRESIDENT CARTER HAS BEEN SUBJECT IN RECENT MONTHS TO INTENSIFIED PROTECTIONIST PRESSURES. THE PRESIDENT HAS FIRMLY OPPOSED THESE AND, SPECIFICALLY IN THE CASE OF SHOES, INSISTED THAT ARRANGEMENTS INCLUDE ONLY TWO FAR EASTERN COUNTRIES, NOT OTHER COUNTRIES SUCH AS ITALY. PRIME MINISTER ANDREOTTI WELCOMED THAT DECISION, WHICH WAS VERY IMPORTANT TO THE ITALIANS SINCE THE SHOE INDUSTRY IS PRIMARILY COMPOSED OF SMALL AND MEDIUM-SIZED
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GROUPS.

7. PRIME MINISTER ANDREOTTI REMARKED THAT ITALY WOULD BE REPAYING IN THE NEXT FEW DAYS SDR 700 MILLION ON A 1974 IMF LOAN. THIS WOULD HAVE A BENEFICIAL IMPACT ON THE ITALIAN PUBLIC AND SHOW THAT ITALY IS MEETING ITS INTERNATIONAL FINANCIAL OBLIGATIONS. SECRETARY BLUMENTHAL AGREED THAT THIS WAS AN IMPORTANT STEP AND THAT HE LOOKS FORWARD TO MEETING WITH TREASURY MINISTER STAMMATI IN THE FALL IN CONNECTION WITH THE ANNUAL MEETINGS OF THE IMF AND WORLD BANK IN ORDER TO PURSUE FURTHER THESE FINANCIAL MATTERS FURTHER. VANCE

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